



The Accounting Officer  
Mbombela Local Municipality  
PO Box 45  
Nelspruit  
1200

30 November 2007

Reference: I vd Walt

Dear Sir

**REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF MBOMBELA LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007.**

The above-mentioned report of the Auditor-General are submitted herewith in terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004 read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 121(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA)

In terms of section 121(3) and 127(2) of the MFMA municipalities have to include the audit report in the municipality's annual report for tabling within seven months after the end of the financial year.

Your attention is drawn to sections 121(4) and 127(1) of the MFMA with regard to the inclusion of this audit report in the annual report of your entity and the submission of said annual report to the municipal manager of the parent municipality.

Until tabled as required by section 127(2) the report is **not a public document** and should therefore be treated as **confidential**.

Until tabled in council by the Mayor of the parent municipality as required by section 127(2) of the MFMA, the audit report is **not a public document** and should therefore be treated as **confidential**.

As your municipality/municipal entity will be responsible for publishing the attached audit report as part of the annual report, you are required to do the following:

- Submit the final printer's proof of the annual report (which includes the audit report) to the relevant audit manager of the Auditor-General for verification of the audit-related references before it is printed or copied. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
- The signature at the end of the hard copy of the audit report should be scanned in when preparing to print the report. The signature Auditor-General in the handwriting of the



auditor authorised to sign the audit report, as well as the place and date of signing and the logo should also appear at the end of the report, as in the hard copy that is provided to you. The official logo and the authorised signature will be made available to you in electronic format.

Please notify the Provincial Auditor-General (Business Executive) well in advance of the date on which the audit report, or the annual report containing this audit report, will be tabled at the municipality.

Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

**Business Executive: Mpumalanga**

Enquiries: Izak van der Walt  
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**REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL AND MPUMALANGA PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE MBOMBELA LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I was engaged to audit the accompanying financial statements of the Mbombela Local Municipality (municipality) which comprise the statement of financial position as at 30 June 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes and the accounting officer's report, as set out on pages [xx] to [xx].

**Responsibility of the accounting officer for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by National Treasury, as set out in accounting policy note 2.1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:
  - designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - making accounting estimates that are reasonable in the circumstances.

**Responsibility of the Auditor-General**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996, read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit in accordance with International Standards on Auditing. Because of the matters discussed in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

**Basis of accounting**

4. The municipality's policy is to prepare financial statements on the basis of accounting determined by National Treasury, as set out in accounting policy note 2.1.

**Basis for disclaimer of opinion**

**Property, plant and equipment**

5. Documentation supporting R10 453 357 relating to the opening balance could not be provided for audit purposes.
6. Invoices and contracts supporting additions to the value of R244 557 163 could not be provided for audit purposes.
7. Documentation supporting the disposals of R525 506 could not be provided for audit purposes.

8. A detailed breakdown of depreciation of R29 253 589 in the annual financial statements could not be provided for audit purposes.
9. I was also unable to confirm the existence of property, plant and equipment of R401 720 in the financial statements, as the fixed asset register was not descriptive enough to allow for the physical verification of assets.
10. The property, plant and equipment register was not reconciled with the financial statements as the register had no totals to compare with.
11. I was therefore unable to obtain sufficient appropriate audit evidence to confirm the completeness, existence, accuracy and valuation of property, plant and equipment disclosed as R909 054 908, as stated in the financial statements. The entity's records did not permit the application of alternative audit procedures.

#### **Receivables**

12. I was unable to obtain supporting documentation with regards to the suspense accounts of R15 462 970 and debtors accounts to the value of R27 226 489.
13. I was unable to obtain supporting schedules of the provision for impairment of accounts receivable of R142 852 974 and bad debt written off amounting to R70 544 510.
14. I was therefore unable to satisfy myself as to the accuracy, valuation, existence and completeness of debtors' balances in the financial statements to the value of R77 210 703. The municipality's records did not permit the application of adequate alternative audit procedures.

#### **Payables**

15. Creditors listings supporting R121 983 740 in the annual financial statements could not be provided for audit purposes. I was unable to satisfy myself as to the completeness, existence, valuation, rights and obligations of these creditors' balances. I was unable to perform alternative audit procedures to obtain sufficient appropriate audit evidence.

#### **Revenue**

16. I was unable to satisfy myself as to the completeness of revenue from property rates and taxes, disclosed as R123 442 902 in the financial statements, due to the unavailability of the valuation roll for Hazyview and Whiteriver. I was unable to perform alternative procedures to obtain sufficient appropriate audit evidence in this regard.

#### **Operating leases**

17. The municipality did not disclose the operating leases in the notes to the annual financial statements as required by GAAP 17 paragraph 35. The completeness of the amount of operating leases could not be determined since the municipality did not maintain a register with the lease details. I was unable to perform alternative procedures to obtain sufficient appropriate audit evidence in this regard.

#### **Disclaimer of opinion**

18. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have been unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Mbombela Local Municipality. Accordingly, I do not express an opinion on the financial statements for the year ended 30 June 2007.

## **EMPHASIS OF MATTER**

I draw attention to the following matter:

### **Basis of accounting**

19. As set out in the accounting policy note 2.1, the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of *General Notice 552 of 2007*, issued in *Government Gazette No. 30013 of 29 June 2007*.

## **OTHER MATTERS**

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

### **Non-compliance with applicable legislation**

#### 20. MFMA

- i. The annual report for the 2005/06 financial year was not submitted to the municipal council within seven months after year-end as required in terms of section 127(2) of the MFMA.
- ii. The website did not contain all the information as required by section 75 of the MFMA such as the annual report and budget related policies.
- iii. The mayor, MEC for local government and the Auditor-General were not informed in writing of the wasteful expenditure to the amount of R314 988 in terms of section 42(4) of the MFMA.

#### 21. Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997)

- i. No proof of written termination letters for 7 employees could be provided, as required by section 37(4) and (5) of the Basic Conditions of Employment Act, 1997.

#### 22. Municipal Property Rates Act, 2004 (Act No. 6 of 2004)

- i. Section 32(1)(b) of the Municipal Property Rates Act, 2004 states that the valuation roll remains valid for four years and should be reviewed regularly. However, the valuation roll was last reviewed in 1999.

### **Material correction made to the annual financial statements submitted for audit**

23. The financial statements, approved by the accounting officer and submitted for audit on 31 August 2007, have been significantly revised in respect of the following misstatement identified during the audit:
  - An amount of R15 222 585 was incorrectly classified as bad debts written off. The resulting adjustment decreased bad debts written off and had a compensating increase to the provision for bad debt.

### **Internal control**

24. Section 62(1)(c)(ii) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one internal control component.

*Inter*

| Reporting item                                      | Control environment | Assessment of risks | Control activities | Information and communication | Monitoring |
|---|---------------------|---------------------|--------------------|-------------------------------|------------|
| <b>Basis for disclaimer or opinion</b>              |                     |                     |                    |                               |            |
| Property, plant and equipment                       | X                   | X                   | X                  | X                             | X          |
| Receivables   | X                   | X                   | X                  | X                             |            |
| Revenue: other                                      |                     |                     | X                  | X                             | X          |
| Provisions  |                     |                     | X                  |                               |            |
| Payables  |                     | X                   |                    | X                             | X          |
| Expenditure: other                                  |                     |                     |                    | X                             |            |
| Operating leases                                    |                     |                     |                    |                               | X          |
| <b>Other Matters</b>                                |                     |                     |                    |                               |            |
| Non-compliance with applicable laws and regulations |                     |                     | X                  | X                             | X          |

#### **Special investigations in progress or completed**

25. The municipality engaged the services of a private consulting and investigation firm to investigate an agreement with a service provider which was terminated by the municipality due to non-performance on the part of the service provider.
26. In addition the internal audit section finalised an investigation on 19 April 2007 regarding waste management: supply and delivery of mass containers, during which wasteful expenditure of R314 988 was identified.

#### **OTHER REPORTING RESPONSIBILITIES**

##### **Reporting on performance information**

27. I have audited the performance information as set out on pages xx to xx.

##### **Responsibility of the accounting officer for the performance information**

28. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

##### **Responsibility of the Auditor-General**

29. I conducted my audit in accordance with section 13 of the PAA read with General Notice 646 of 2007, issued in Government Gazette No. 29919 of 25 May 2007.
30. In terms of the foregoing my audit included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
31. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

## **Audit findings**

### **32. Non-compliance with regulatory requirements**

- The municipality did not develop and implement mechanisms, systems and processes to audit the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

### **33. Lack of sufficient appropriate audit evidence**

- I was unable to obtain sufficient appropriate audit evidence in relation to the performance information of the municipality, as the system used for generating information on performance information was not adequate for purposes of the evaluation.

### **34. Measurable objectives not consistent**

- I draw attention to the fact that the measurable objectives reported in the annual report of the municipality are materially inconsistent when compared with the predetermined objectives as per the Integrated Development Plan (IDP) and the approved budget.

The following table reflects the material differences:

| <b>Development priorities and objectives per IDP</b> | <b>Development priorities and objectives per budget</b> | <b>Development priorities and objectives per performance report</b> |
|--|---|---|
| Basic service delivery                               | Roads and storm water                                   | Water, sanitation and roads & stormwater programmes                 |
| Local economic development                           | Sanitation  | Bulk infrastructure   |
| Municipal financial viability and management         | Water   | Installation of street lights                                       |
| Institutional development and transformation         | Electricity   | Electrification of households                                       |
| Good governance and public participation             | Waste management  |   |

## **APPRECIATION**

### **35. The assistance rendered by the staff of the municipality during the audit is sincerely appreciated.**



Pretoria

30 November 2007



A U D I T O R - G E N E R A L



## national treasury

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Chief Financial Officer  
Mbombela Local Municipality  
P O Box 1708  
Nelspruit  
1200

Dear Colleague,

### LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003 EXEMPTIONS

Your written request, dated 27 November 2007, with regards to the Municipal Finance Management Act 56 of 2003, exemptions in terms of Government Gazette No. 30013, dated 29 June 2007 has reference.

Although your request for deviation to early adopt IAS 20/AC 134, Accounting for Government Grants and disclosure of Government Assistance as specified in the gazette is late. The National Treasury encourages Mbombela Local Municipality to adopt the framework per your letter dated 27 November 2007. The municipality's attention is also drawn to circular 44 which explains the application of the gazette, especially the basis of preparation to be used.

The Municipality is reminded of sub clause 2(3)(d) of the Gazette and the requirement to prepare and submit a detailed implementation plan to the National Treasury by 31 October 2007 and 31 March 2008.

Should you have any questions please do not hesitate to contact us per our contacts as detailed above.

We would like to take this opportunity to wish you a successful year-end.

Kind regards

**FREEMAN NOMVALO**  
Accountant-General  
National Treasury  
Date: 11/12/2007